

Ashland Hospital District No. 3

Accountants' Report and Financial Statements

December 31, 2010 and 2009



Ashland Hospital District No. 3

December 31, 2010 and 2009

Contents

Independent Accountants' Report.....	1
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Financial Statements

Balance Sheets.....	2
Statements of Revenues, Expenses and Changes in Net Assets	3
Statements of Cash Flows	4
Notes to Financial Statements	6

Independent Accountants' Report

Board of Trustees
Ashland Hospital District No. 3
Ashland, Kansas

We have audited the accompanying balance sheet of Ashland Hospital District No. 3 (Hospital District) as of December 31, 2010, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Hospital District's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Ashland Hospital District No. 3 as of and for the year ended December 31, 2009, were audited by other accountants whose report dated June 21, 2010, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit Guide. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2010 financial statements referred to above present fairly, in all material respects, the financial position of Ashland Hospital District No. 3 as of December 31, 2010, and the results of its changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Hospital District has not presented management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of the basic financial statements.

BKD, LLP

June 14, 2011

Ashland Hospital District No. 3

Balance Sheets

December 31, 2010 and 2009

	2010	2009
Assets		
Current Assets		
Cash	\$ 640,122	\$ 155,946
Patient accounts receivable, net	456,494	456,477
Property taxes receivable	1,091,829	1,088,456
Estimated amounts due from third-party payers	12,584	415,000
Supplies	113,932	118,163
Prepaid expenses and other	26,058	22,796
Total current assets	2,341,019	2,256,838
Noncurrent Cash	20,688	9,812
Capital Assets		
Land	14,560	14,560
Depreciable capital assets, net of accumulated depreciation	862,518	1,001,403
Total capital assets, net of accumulated depreciation	877,078	1,015,963
Total assets	\$ 3,238,785	\$ 3,282,613
Liabilities and Net Assets		
Current Liabilities		
Current portion of long-term debt	\$ 78,213	\$ 235,284
Accounts payable	110,239	272,409
Accrued wages and payroll taxes	98,994	85,498
Accrued paid time off	40,184	42,725
Accrued interest payable	5,125	5,750
Deferred property taxes revenue	1,091,829	1,088,456
Total current liabilities	1,424,584	1,730,122
Long-term Debt	227,381	300,869
Total liabilities	1,651,965	2,030,991
Net Assets		
Invested in capital assets, net of related debt	571,484	479,810
Restricted - expendable for specific operating activities	9,651	2,924
Unrestricted	1,005,685	768,888
Total net assets	1,586,820	1,251,622
Total liabilities and net assets	\$ 3,238,785	\$ 3,282,613

Ashland Hospital District No. 3
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Operating Revenues		
Net patient service revenue	\$ 3,643,582	\$ 3,201,413
Other	<u>139,201</u>	<u>125,340</u>
Total operating revenues	<u>3,782,783</u>	<u>3,326,753</u>
Operating Expenses		
Salaries	2,157,776	2,212,443
Supplies and other	2,195,581	1,960,673
Depreciation	<u>184,579</u>	<u>141,870</u>
Total operating expenses	<u>4,537,936</u>	<u>4,314,986</u>
Operating Loss	<u>(755,153)</u>	<u>(988,233)</u>
Nonoperating Revenues (Expenses)		
Property taxes	1,081,396	1,141,053
Noncapital grants and contributions	26,649	12,244
Interest income	5,449	4,914
Interest expense	(23,129)	(21,821)
Loss on disposal of capital assets	<u>(14)</u>	<u>(4,199)</u>
Total nonoperating revenues	<u>1,090,351</u>	<u>1,132,191</u>
Change in Net Assets	335,198	143,958
Net Assets, Beginning of Year	<u>1,251,622</u>	<u>1,107,664</u>
Net Assets, End of Year	<u><u>\$ 1,586,820</u></u>	<u><u>\$ 1,251,622</u></u>

Ashland Hospital District No. 3
Statements of Cash Flows
Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 4,045,981	\$ 2,866,115
Payments to employees	(2,146,821)	(2,208,207)
Payments to suppliers and contractors	(2,356,782)	(1,838,673)
Other receipts, net	<u>139,201</u>	<u>125,340</u>
Net cash used in operating activities	<u>(318,421)</u>	<u>(1,055,425)</u>
Investing Activities		
Interest income	<u>5,449</u>	<u>4,914</u>
Noncapital Financing Activities		
Property taxes	1,081,396	1,141,053
Noncapital grants and contributions	<u>26,649</u>	<u>12,244</u>
Net cash provided by noncapital financing activities	<u>1,108,045</u>	<u>1,153,297</u>
Capital and Related Financing Activities		
Purchases of capital assets	(24,543)	(25,569)
Proceeds on sale of capital assets	-	1,000
Interest paid on long-term debt	(23,754)	(22,446)
Principal payments on long-term debt	<u>(251,724)</u>	<u>(65,833)</u>
Net cash used in capital and related financing activities	<u>(300,021)</u>	<u>(112,848)</u>
Increase (Decrease) in Cash	495,052	(10,062)
Cash, Beginning of Year	<u>165,758</u>	<u>175,820</u>
Cash, End of Year	<u><u>\$ 660,810</u></u>	<u><u>\$ 165,758</u></u>
Reconciliation of Cash to the Balance Sheets		
Cash in current assets	\$ 640,122	\$ 155,946
Cash in noncurrent assets	<u>20,688</u>	<u>9,812</u>
Total cash	<u><u>\$ 660,810</u></u>	<u><u>\$ 165,758</u></u>

Ashland Hospital District No. 3
Statements of Cash Flows (Continued)
Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Reconciliation of Operating Loss to Net Cash		
Used in Operating Activities		
Operating loss	\$ (755,153)	\$ (988,233)
Depreciation	184,579	141,870
Provision for uncollectible accounts	101,528	13,901
Equipment under capital lease - expensed	-	11,055
Change in assets and liabilities		
Patient accounts receivable	(101,545)	(154,199)
Estimated amounts due from/to third-party payers	402,416	(180,000)
Supplies	4,231	4,228
Prepaid expenses	(3,262)	(15,504)
Accounts payable	(162,170)	122,221
Other accrued liabilities	10,955	4,236
Deferred revenue	<u>-</u>	<u>(15,000)</u>
Net cash used in operating activities	<u><u>\$ (318,421)</u></u>	<u><u>\$ (1,055,425)</u></u>
 Supplemental Cash Flows Information		
Capital lease obligation incurred for capital assets	\$ 21,165	\$ 157,636

Ashland Hospital District No. 3

Notes to Financial Statements

December 31, 2010 and 2009

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

Ashland Hospital District No. 3 (Hospital District) is a political subdivision of the State of Kansas. The Hospital District operates the Ashland Health Center which consists of an acute care hospital, long-term care unit, clinic and independent living facility located in Ashland, Kansas. The Hospital District is governed by a Board of Trustees consisting of five members elected by residents of the Hospital District.

Basis of Accounting and Presentation

The financial statements of the Hospital District have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally tax appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific (such as tax appropriations), interest income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital District first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

The Hospital District prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, the Hospital District has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those that were issued on or after November 30, 1989, and do not conflict with or contradict GASB pronouncements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Hospital District considers all liquid investments with original maturities of three months or less to be cash equivalents. There were no cash equivalents at December 31, 2010 and 2009.

Ashland Hospital District No. 3

Notes to Financial Statements

December 31, 2010 and 2009

Budgetary Principles

The Hospital District is required by state statutes to adopt an annual budget for its general funds on or before August 25 for the ensuing year. The Hospital District's Board of Trustees may amend the budget by transferring budgeted amounts from one object or purpose to another within the same fund. Expenditures may not legally exceed the total amount of the adopted budget of individual funds.

Property Taxes

The Hospital District received approximately 22% in 2010 and 25% in 2009 of its financial support from property taxes. One hundred percent of these funds were used to support operations in both years.

In accordance with governing state statutes, property taxes levied during the current year are a revenue source to be used to finance the budget of the ensuing year. Taxes are assessed on a calendar year tax basis and become a lien on the property on November 1 of each year. The county treasurer is the tax collection agent for all taxing entities within the county. Property owners have the option of paying one-half or the full amount of the taxes levied on or before December 20 during the year levied with the balance to be paid on or before May 10 of the ensuing year. State statutes prohibit the county treasurer from distributing taxes collected in the year levied prior to January 1 of the ensuing year. Consequently, for revenue recognition purposes, the taxes levied during the current year are not due and receivable until the ensuing year. At December 31, such taxes are a lien on the property and are recorded as property taxes receivable, net of anticipated delinquencies, with a corresponding amount recorded as deferred property tax revenue on the balance sheets.

Risk Management

The Hospital District is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Patient Accounts Receivable

The Hospital District reports patient accounts receivable for the services rendered at net realizable amounts from third-party payers, patients and others. The Hospital District provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions. As a service to the patient, the Hospital District bills third-party payers directly and bills the patient when the patient's liability is determined. Patient accounts receivable are due in full when billed. Accounts are considered delinquent and subsequently written off as bad debts based on individual credit evaluation and specific circumstances of the account.

Ashland Hospital District No. 3

Notes to Financial Statements

December 31, 2010 and 2009

Supplies

Supply inventories are stated at the lower of cost, determined using the first-in, first-out method, or market.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Hospital District:

Land improvements	5-15 years
Buildings	10-33 years
Fixed equipment	5-25 years
Moveable equipment	3-15 years

The costs of maintenance and repairs are charged to operating expenses as incurred. The costs of significant additions, renewals and betterments to depreciable properties are capitalized and depreciated over the remaining or extended estimated useful lives of the item or the properties. When depreciable property is retired or otherwise disposed of, the related costs and accumulated depreciation are removed from the accounts and any gain or loss is reflected in nonoperating revenues (expenses).

Compensated Absences

Hospital District policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay in effect at the balance sheet date.

Net Assets

Net assets of the Hospital District are classified in three components. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase of those assets. Restricted expendable net assets are noncapital assets that must be used for a particular purpose as specified by donors external to the Hospital District. Unrestricted net assets are remaining assets less remaining liabilities that do not meet the above conditions.

Ashland Hospital District No. 3

Notes to Financial Statements

December 31, 2010 and 2009

Net Patient Service Revenue

The Hospital District has agreements with third-party payers that provide for payments to the Hospital District at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Charity Care

The Hospital District provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital District does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

Income Taxes

As an essential government entity, the Hospital District is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the Hospital District is subject to federal income tax on any unrelated business taxable income.

Reclassifications

Certain reclassifications have been made to the 2009 financial statements to conform to the 2010 financial statement presentation. These reclassifications had no effect on the change in net assets.

Note 2: Management Agreement

The Hospital District has a management agreement with Great Plains Health Alliance, Inc. (GPHA), whereby GPHA agreed to administer operations of the Ashland Health Center and provide shared services for accounting, education and medical records. Fees incurred under the management agreement were \$65,805 and \$63,274 for 2010 and 2009, respectively.

Note 3: Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The Hospital District's deposit policy for custodial credit risk requires compliance with the provisions of state law.

Ashland Hospital District No. 3

Notes to Financial Statements

December 31, 2010 and 2009

State law requires collateralization of all deposits with federal depository insurance and other acceptable collateral having an aggregate value at least equal to the amount of the deposits.

At December 31, 2010 and 2009, none of the Hospital District's deposits (checking and savings accounts) were exposed to custodial credit risk.

The carrying amounts of deposits are included in the Hospital District's balance sheet captions as follows at December 31, 2010 and 2009:

	2010	2009
Cash in current assets	\$ 639,806	\$ 155,631
Noncurrent cash		
Board-designated	11,037	6,888
Restricted by others	9,651	2,924
	20,688	9,812
	\$ 660,494	\$ 165,443

Note 4: Patient Accounts Receivable, Net/Net Patient Service Revenue

The Hospital District has agreements with third-party payers that provide for payments to the Hospital District at amounts different from its established rates. These payment arrangements include:

Medicare. The Hospital District is recognized as a Critical Access Hospital (CAH). Under CAH rules, inpatient acute care, skilled swing-bed and certain outpatient services rendered to Medicare program beneficiaries are paid at one hundred one percent (101%) of allowable cost subject to certain limitations. Other outpatient services related to Medicare beneficiaries are paid based on a combination of fee schedules and cost reimbursement methodologies. The Hospital District is reimbursed for most services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital District and audits thereof by the Medicare administrative contractor.

Medicaid. Payment for inpatient and outpatient services rendered to Medicaid beneficiaries are paid on a cost basis. The Hospital District is reimbursed for services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital District with audits thereof by the Medicaid administrative contractor.

Ashland Hospital District No. 3

Notes to Financial Statements

December 31, 2010 and 2009

Approximately 77% and 78% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2010 and 2009, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Hospital District has also entered into payment agreements with certain commercial insurance carriers and preferred provider organizations. The basis for payment to the Hospital District under these agreements includes prospectively determined case rates and discounts from established charges.

During March 2010, President Obama signed into law the *Patient Protection and Affordable Care Act* and the *Health Care and Education Tax Credits Reconciliation Act of 2010*. Together, these two acts will reform the health care system and will impact payments received by health care providers. Any reductions in payments may be offset by reductions in bad debts and charity care, as the number of uninsured Americans is reduced. However, the overall impact on the Hospital District of the health care reform is not presently determinable.

Accounts receivable are recorded net of the allowance for uncollectible accounts and allowance for contractual adjustments at December 31, 2010 and 2009, as follows:

	2010	2009
Gross patient accounts receivable		
Medicare	\$ 90,936	\$ 117,852
Medicaid	67,620	52,253
Blue Cross	35,546	13,593
Other third-party payers	43,383	37,919
Self-pay	438,281	393,869
	<u>675,766</u>	<u>615,486</u>
Less allowance for uncollectible accounts	(306,332)	(231,919)
Plus allowance for contractual adjustments	<u>87,060</u>	<u>72,910</u>
Patient accounts receivable, net	<u>\$ 456,494</u>	<u>\$ 456,477</u>

Ashland Hospital District No. 3

Notes to Financial Statements

December 31, 2010 and 2009

Net patient service revenue for the years ended December 31, 2010 and 2009, is as follows:

	<u>2010</u>	<u>2009</u>
Gross patient service revenue	\$ 2,997,689	\$ 2,453,678
Plus (less):		
Contractual adjustments		
Medicare	971,931	915,960
Medicaid	(18,509)	(13,828)
Blue Cross	(90,993)	(65,567)
Other	(66,240)	(42,089)
Administrative adjustments	(36,359)	(30,786)
Charity care	(12,409)	(2,054)
Provision for uncollectible accounts	<u>(101,528)</u>	<u>(13,901)</u>
Net patient service revenue	<u>\$ 3,643,582</u>	<u>\$ 3,201,413</u>

Note 5: Concentration of Credit Risk

The Hospital District grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payer arrangements. The mix of accounts receivables net of allowance for uncollectible accounts and contractual allowances at December 31, 2010 and 2009, was as follows:

	<u>2010</u>	<u>2009</u>
Medicare	43%	44%
Medicaid	14	11
Blue Cross	6	2
Other third-party payers	8	7
Self-pay	<u>29</u>	<u>36</u>
	<u>100%</u>	<u>100%</u>

Ashland Hospital District No. 3

Notes to Financial Statements

December 31, 2010 and 2009

Note 6: Noncurrent Cash

Noncurrent cash includes 1) funds internally designated by the Board of Trustees to be used for replacement of capital assets or for the purchase of additional capital assets and 2) funds externally restricted by donors for student scholarships and loans. The internally designated funds may be used for other purposes by action of the Board of Trustees. Noncurrent cash consists of savings accounts.

The externally restricted assets totaled \$9,651 and \$2,924 at December 31, 2010 and 2009, respectively.

Note 7: Capital Assets

Capital assets activity for the years ended December 31, 2010 and 2009, was:

	2010			
	Beginning Balance	Additions	Disposals	Ending Balance
Land	\$ 14,560	\$ -	\$ -	\$ 14,560
Land improvements	41,353	-	-	41,353
Buildings	1,533,740	-	(524)	1,533,216
Fixed equipment	626,601	-	-	626,601
Moveable equipment	1,234,671	45,708	(71,767)	1,208,612
	<u>3,450,925</u>	<u>45,708</u>	<u>(72,291)</u>	<u>3,424,342</u>
Less accumulated depreciation				
Land improvements	14,660	1,396	-	16,056
Buildings	1,007,021	50,543	(524)	1,057,040
Fixed equipment	505,880	16,848	-	522,728
Moveable equipment	907,401	115,792	(71,753)	951,440
	<u>2,434,962</u>	<u>184,579</u>	<u>(72,277)</u>	<u>2,547,264</u>
Capital assets, net	<u>\$ 1,015,963</u>	<u>\$ (138,871)</u>	<u>\$ (14)</u>	<u>\$ 877,078</u>

Ashland Hospital District No. 3

Notes to Financial Statements

December 31, 2010 and 2009

	2009			
	Beginning Balance	Additions	Disposals	Ending Balance
Land	\$ 14,560	\$ -	\$ -	\$ 14,560
Land improvements	41,353	-	-	41,353
Buildings	1,533,740	-	-	1,533,740
Fixed equipment	601,032	25,569	-	626,601
Moveable equipment	1,129,511	157,636	(52,476)	1,234,671
	<u>3,320,196</u>	<u>183,205</u>	<u>(52,476)</u>	<u>3,450,925</u>
Less accumulated depreciation				
Land improvements	13,263	1,397	-	14,660
Buildings	956,138	50,883	-	1,007,021
Fixed equipment	490,478	15,402	-	505,880
Moveable equipment	880,490	74,188	(47,277)	907,401
	<u>2,340,369</u>	<u>141,870</u>	<u>(47,277)</u>	<u>2,434,962</u>
Capital assets, net	<u>\$ 979,827</u>	<u>\$ 41,335</u>	<u>\$ (5,199)</u>	<u>\$ 1,015,963</u>

Note 8: Long-Term Debt

The following is a summary of long-term debt transactions for the years ended December 31, 2010 and 2009:

	2010				
	Beginning Balance	Additions	Deletions	Ending Balance	Amounts Due Within One Year
6% certificates of participation	\$ 230,000	\$ -	\$ (25,000)	\$ 205,000	\$ 30,000
Capital lease obligations	306,153	21,165	(226,724)	100,594	48,213
	<u>\$ 536,153</u>	<u>\$ 21,165</u>	<u>\$ (251,724)</u>	<u>\$ 305,594</u>	<u>\$ 78,213</u>

Ashland Hospital District No. 3

Notes to Financial Statements

December 31, 2010 and 2009

	2009				
	Beginning Balance	Additions	Deletions	Ending Balance	Amounts Due Within One Year
6% certificates of participation	\$ 255,000	\$ -	\$ (25,000)	\$ 230,000	\$ 25,000
Capital lease obligations	178,295	168,691	(40,833)	306,153	210,284
	<u>\$ 433,295</u>	<u>\$ 168,691</u>	<u>\$ (65,833)</u>	<u>\$ 536,153</u>	<u>\$ 235,284</u>

Certificates of Participation

Certificates of participation, dated January 2001, in the original amount of \$400,000 bear interest at 6%. The debt is payable in annual installments through February 2016. The Hospital District is required to make semi-annual interest and annual principal payments. Outstanding certificates of participation maturing February 1, 2003, and thereafter may be redeemed at the Hospital District's option.

Required annual payments on the certificates of participation as of December 31, 2010, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2011	\$ 41,400	\$ 30,000	\$ 11,400
2012	39,600	30,000	9,600
2013	42,650	35,000	7,650
2014	40,550	35,000	5,550
2015	38,450	35,000	3,450
2016	41,200	40,000	1,200
	<u>\$ 243,850</u>	<u>\$ 205,000</u>	<u>\$ 38,850</u>

Ashland Hospital District No. 3

Notes to Financial Statements

December 31, 2010 and 2009

Capital Lease Obligations

The Hospital District is obligated under leases for equipment that are accounted for as capital leases. Assets under capital leases at December 31, 2010 and 2009, totaled \$230,826 and \$367,298, respectively, net of accumulated depreciation of \$121,292 and \$84,201, respectively. The following is a schedule by year of future minimum lease payments under the capital leases including interest at rates of 4.25% to 4.95% together with the present value of the future minimum lease payments as of December 31, 2010:

Year Ending December 31,	
2011	\$ 51,728
2012	45,540
2013	8,306
Total minimum lease payments	105,574
Less amount representing interest	4,980
Present value of future minimum lease payments	\$ 100,594

Note 9: Medical Malpractice Coverage and Claims

The Hospital District purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital District's claim experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

Note 10: Pension Plan

Plan description - The Hospital District contributes to the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple employer defined benefit pension plan administered by the state of Kansas as provided by K.S.A. 74-4901, et seq. KPERS provides retirement benefits, life insurance, disability income benefits and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 South Kansas Avenue, Suite 100, Topeka, Kansas 66603-3803) or by calling 1.888.275.5737.

Ashland Hospital District No. 3

Notes to Financial Statements

December 31, 2010 and 2009

Funding policy - K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4% of covered salary for all employees who joined the plan prior to July 1, 2009, and at 6% for employees who joined the plan on or after July 1, 2009. The employer collects and remits member-employee contributions according to the provisions of Section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rate be determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve basis. State law sets a limitation on annual increases in the contribution rates for KPERS employers. The regular employer rate for 2010 and 2009, established by statute, was 6.14% and 5.54%, respectively. The Hospital District's employer contributions to KPERS for the years ended December 31, 2010, 2009 and 2008, were \$118,701, \$98,209 and \$74,086, respectively, equal to the statutory required contributions for each year.

Note 11: Significant Estimates and Concentrations

Allowance for Net Patient Service Revenue Adjustments

Estimates of allowances for adjustments included in net patient service revenue are described in *Notes 1 and 4*.

Current Economic Conditions

The current protracted economic decline continues to present health care providers with difficult circumstances and challenges, which in some cases have resulted in large declines in assets and contributions and constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the Hospital District.

Current economic conditions, including the rising unemployment rate, have made it difficult for certain patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payers may significantly impact net patient service revenue, which could have an adverse impact on the Hospital District's future operating results. Further, the effect of economic conditions on the government may have an adverse effect on cash flows related to the Medicare and Medicaid programs.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in allowances for accounts receivable that could negatively impact the Hospital District's ability to maintain sufficient liquidity.

Ashland Hospital District No. 3

Notes to Financial Statements

December 31, 2010 and 2009

Note 12: Contingencies

Litigation

In the normal course of business, the Hospital District is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Hospital District's commercial insurance; for example, allegations regarding employment practices or performance of contracts. The Hospital District evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Note 13: Subsequent Event – Medicaid Provider Assessment

On February 2, 2011, the Centers for Medicare and Medicaid Services (CMS) approved a Medicaid State Plan amendment which provides for additional funds to be paid to operators of long-term care facilities. The Kansas Department on Aging has estimated the additional net receipts for the Hospital District to be approximately \$103,000. These receipts began in March 2011.